

Master Document - Audit Program

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| Activity Code | Incurred Cost – Concurrent Auditing Major & Non-Major |
| Version 4.7, dated September 2012 | |
| B-1 | Planning Considerations |
| Purpose and Scope | |
| <p>This program provides a logical sequence to the effort required to perform a concurrent incurred cost audit. It should reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards and DCAA objectives. The steps in the program are intended as general guidance and should be expanded or eliminated as necessary to fit the audit. The audit program should serve as a control document covering the entire incurred cost audit of a contractor fiscal year. Those portions of the audit which are covered in other assignments should be referenced at the appropriate place in this program. Audit programs in other assignments should be cross-referenced back to this assignment.</p> | |
| <p>1. The purpose of incurred cost auditing is to determine whether costs charged to auditable Government contracts are allowable, allocable, and reasonable in accordance with the contract and applicable Government acquisition regulations.</p> | |
| <p>2. Concurrent auditing procedures are intended to expedite the process of establishing final indirect cost rates, thus assisting contracting officers in closing out contracts in a more timely fashion. The timing for performing individual steps (i.e., before or after the receipt of the certified proposal) is a matter of local judgment based on local circumstances, the adequacy of internal controls, and the efficiencies to be gained.</p> | |
| <p>3. The use of this audit program assumes the contractor has been selected as an eligible participant and has agreed to support the application of concurrent auditing procedures. The auditor and the contractor should agree on the submission of data, the general evaluation process, and the timeliness of contractor support during the audit.</p> | |
| <p>4. The audit steps are internally cross-referenced and referenced to the Contract Audit Manual (CAM), the Cost Accounting Standards (CAS), the Federal Acquisition Regulation and the DoD Supplement (FAR/DFARS), the Internal Control Audit Planning Summary (ICAPS), and the Mandatory Annual Audit Requirements (MAARs). See CAM 6-1S1 for a listing of the MAARs and their objectives. The auditor should combine steps for planned internal control audits, CAS audits, and the incurred cost audit steps to be performed during the contractor's fiscal year, when feasible.</p> | |
| <p>5. The MAARs concept makes a presumption of materiality of certain audit steps. The auditor is expected to exercise professional judgment, considering vulnerability and risk, in determining the scope of audit. Transaction testing will be done in accordance with the transaction test plan developed regardless of whether the test in question happens to be a MAAR.</p> | |
| <p>6. The auditor should determine by checking the permanent files and prior audit working papers if significant costs related to CAS have been identified. The auditor will need to consider contractor compliance with the applicable CAS requirements as part of their transaction</p> | |

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| <p>testing steps. Compliance with certain CAS 412 and 413 provisions related to defined benefit pension plans must be tested annually, even if there are no pension costs incurred. Applicable audit steps are provided in Section J-1, Intermediate Procedures.</p> |
| <p>7. A listing of incurred cost audit codes and their objectives is contained in the DMIS User Guide. The determination of which individual packages will be established will be determined during the planning process. IMPORTANT: The transaction test steps appearing in the detailed sections of this audit program represent an outline which merely references related preliminary steps, prompts performance of MAARs, and identifies the portion of the ICAPS to be updated. The supplemental audit steps for each audit area should be added and budgeted into this outline during the process of finalizing the audit program.</p> |
| <p>8. This master program does not provide detailed audit steps for the testing of individual transactions. It is expected that transaction test programs will be developed locally to permit the efficient gathering of evidential matter at individual locations. However, transaction test programs which seem to have general applicability should be submitted through the region to Headquarters, ATTN: PAS for consideration for Agency-wide use.</p> <p>The purpose of transaction testing is to determine that claimed costs are allowable, allocable, and reasonable. Transaction testing working papers should include the criteria (e.g., FAR citations/requirements) used to evaluate the transactions, the nature/description of the transaction evaluated, and the results of the evaluation.</p> |
| <p>9. The audit program steps should assist the auditor in determining the scope of audit and planning the transaction testing.</p> |
| <p>a. Current year procedures include steps that can be performed before or during the contractor's fiscal year. Preliminary steps, such as the risk assessment, coordination with the ACO and other DCAA offices, and initial meetings with the contractor may be performed prior to the start of the fiscal year. Audit steps involving transaction testing can be planned throughout the year. How and when those steps are carried out is dependent on auditor judgment. The auditor and supervisor should reach a mutual understanding as to the timing of the audit steps to be performed.</p> |
| <p>b. Intermediate procedures include steps that can be performed after the close of the contractor's fiscal year, but prior to receipt of a certified proposal.</p> |
| <p>c. Final procedures include steps that can only be performed after receipt of a certified proposal.</p> |
| <p>During the performance of each phase of the audit, the auditor should fully discuss any findings with the contractor. Reaching agreement on questioned costs during the audit will facilitate final agreement and audit report issuance.</p> |
| <p>10. For contractors authorized to participate in the direct billing program, the auditor should consider performing the annual testing of paid vouchers (Code 11015) in conjunction with this assignment.</p> |
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| | FAR 42.7, DFARS 242.7 |
| | FAR 31.2, DFARS 231.2 |
| | Applicable Agency FAR Supplement(s) |
| | CAM 1-504, Access to Records of Contractor |
| | CAM 4-400, Audit Working Papers |
| | CAM Chapter 6, Incurred Costs Audit Procedures |
| | CAM Chapter 7, Selected Areas of Cost |
| | CAM Chapter 8, Cost Accounting Standards |
| | CAM 10-500, Audit Reports on Annual Incurred Costs |
| | CAM 3-200, Briefing of Contracts and Requests for Proposals |
| | CAM 4-702.3, Fraud Indicators and Audit Procedures for Uncovering Fraud |
| | CAM Figure 4-7-5, Examples of Characteristics and Types of Activity Associated with Illegal Expenditures and Acts for Specific Audit Areas |

| B-1 | Preliminary Steps | W/P Reference |
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| | Version 4.7, dated September 2012 | |
| | 1. Review the open MRD's for guidance which may impact the audit and adjust the scope and procedures appropriately. Open MRDs can be identified using the link provided on the DCAA Intranet home page for "MRDs, AGMs, & AMGMs" | |
| | 2. Preliminary Risk Assessment | |
| | a. Evaluate relevant information from the FAO program plan files to document the decision to perform a concurrent incurred cost audit. | |
| | b. Contact the contracting officer to ascertain any known concerns (including risk related to the contractor's financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor's financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-302.1h. If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit. | |
| | c. Electronically transmit an acknowledgement/notification to the | |

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| <p>ACO/Buying Command notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete. (CAM 2-303). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.</p> | |
| <p>d. The auditor should combine steps for planned internal control audits and CAS audits with the incurred cost audit steps to be performed during the contractor’s fiscal year, when feasible. The document “Audit Areas Matrixed to the MAARS” (located in “Other Audit Guidance” under code 10100 – Concurrent Auditing) should be used to identify where audit steps may be consolidated.</p> | |
| <p>(1) Check the FAO program plan files for planned internal control audits or other system audits. Prepare a schedule for planned audits and where practical, plan the performance of the audit steps of those assignments in conjunction with the auditing procedures of this audit program.</p> | |
| <p>(2) Obtain and document an understanding the contractor’s incurred cost submission and its processes for developing the submission using the framework on WP B-2. Obtain and document an understanding of the underlying processes related to those specific incurred cost areas (e.g., the basis of the costs and from where the numbers/amounts are derived). A major portion of this understanding may be obtained during a walk-through of the contractor’s submission.</p> | |
| <p>(3) For contractors with CAS covered contracts, check the permanent file to ensure all significant CAS have been identified. Compliance with certain CAS 412 and 413 provisions/FAR 31.205-6(j) related to defined benefit pension plans must be tested annually even if there are no pension costs incurred. Applicable steps are provided in Section J-1, Intermediate Procedures.</p> | |
| <p>e. Identify areas of increased risk and reduced risk by evaluating the prior incurred cost audit files, CAS audits, and ICAPS.</p> | |
| <p>f. Evaluate audit leads from other audit assignments.</p> | |
| <p>g. Evaluate audit leads obtained from evaluating the contractor’s website, if any, employee publications, press releases, perambulations, etc.</p> | |
| <p>h. In planning the audit, consider the impact of any external restructuring activities (CAM 7-1914):</p> | |
| <p>(1.)Obtain data to support the amortized restructuring costs claimed (e.g., amortization schedules for deferred restructuring</p> | |

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| <p>costs and detailed schedules of the incurred restructuring costs by fiscal year, project and cost element). The support should be at a level of detail sufficient to allow the auditor to determine the allowability of incurred restructuring costs.</p> | |
| <p>(2.) Determine if the incurred restructuring costs are near or in excess of the negotiated ceiling.</p> | |
| <p>(3.) Based on the level of risk, develop appropriate detailed steps (transaction testing) to assure the contractor is properly classifying restructuring activities in accordance with established agreements and DFARS 231.205-70, if applicable.</p> | |
| <p>i. Hold a planning meeting with the audit team (e.g., RAM, Manager, Supervisor, Auditors) to discuss the risk of fraud and other noncompliances with applicable laws and regulations that could have a material effect on the assertion. The discussion should include relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), relevant aspects of the contractor’s environment (e.g., the extent of incentives, pressures and opportunities to commit fraud and the propensity to rationalize misstatements), other known risk factors, and the audit team’s understanding of relevant internal controls (see W/P B-2). The team should also review and discuss the general and other relevant sections of the IG Handbook on Fraud Indicators for Contractors as well as the relevant fraud indicators in CAM Figure 4-7-5. See “Principal Sources of Fraud Indicators” below.</p> <p>Based on the team discussion and other risk assessment procedures the team should document on W/P B, Section 4 the risk factors/indicators identified and design audit procedures to meet the audit objectives and provide reasonable assurance of detecting fraud and other noncompliances with applicable laws and regulations that could have a material effect on the proposal (i.e., tailor (add/delete/modify) the audit steps). GAGAS 6.13(a)</p> <p>Communication among audit team members about the risk of material misstatement due to fraud should continue as needed throughout the audit.</p> <p>Principle Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: http://www.dodig.mil/PUBS/igdh7600.doc. • CAM Figure 4-7-5. | |

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| <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p> | |
| <p>j. In planning the audit, consider the impact of SAS 70, Reports on the Processing of Transactions by Service Organizations, as amended by SAS 88, Service Organizations and Reporting on Consistency, on audit scope by performing the following steps:</p> <p>Note: The Incurred Pension Cost and CAS 412 & 413 Compliance program (assignment code 19412) and the Incurred Insurance Cost and CAS 416 and FAR Compliance program (assignment code 19416) also include the SAS 70 steps. If pension cost and insurance cost are selected for testing, the SAS 70 steps for service organizations related to those costs should be completed as part of those supplemental audit packages.</p> | |
| <p>(1) Determine if the contractor (user organization) uses any service organizations.</p> | |
| <p>(2) If service organizations are used, determine if the transactions processed by the service organization are material.</p> | |
| <p>(3) If transactions are material, determine if the service organization is part of the user organization's information system.</p> | |
| <p>(4) If so, determine the degree of interaction between the service organization and the user organization. If high (as in the case of payroll processing, where the service organization receives time and attendance information from the user organization, prepares the payroll, writes the checks, etc., and then the user organization performs tests of the processed payroll for accuracy), there is no need to obtain an understanding of the service organization's controls. If low (as when a trustee manages pension assets):</p> | |
| <p>(a) Obtain and evaluate the service agreement (contract).</p> | |
| <p>(b) Obtain and evaluate the service auditor's report (if any), referring to the guidance in CAM 4-1000, Relying Upon the Work of Others.</p> | |
| <p>(c) If necessary, obtain and evaluate other information available at the user organization including user manuals, system descriptions, technical manuals, and other policies and procedures.</p> | |
| <p>(d) If necessary, obtain and evaluate (see CAM 4-1000) any reports prepared by the user or service organizations'</p> | |

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| internal auditors relating to internal controls over transactions and processes. | |
| (e) If necessary and with appropriate permission, visit the service organization and perform procedures or request an assist audit. | |
| (5) Summarize effects of evaluation of service organizations on scope of current audit. | |
| 3. Coordination with Other DCAA Offices | |
| a. Request assist audits of contractor records maintained at other locations, including corporate or home office locations and Washington D.C. area offices (CAM 6-804, 805, and 806). The cognizant DCAA assist audit offices should be identified and contacted as early as possible so concurrent auditing procedures can be considered at these locations. | |
| b. The FAO and cognizant Field Detachment office should coordinate the performance of applicable concurrent steps (e.g., floor checks) to insure complete audit coverage of the contractor's fiscal year. | |
| 4. Entrance Conference | |
| a. Obtain a list of planned audits/reviews to be performed by the contractor's internal and external audit staffs. If reliance can be placed on the work of others, the file should contain, at a minimum, the following documentation: | |
| (1) A copy of the report and/or written confirmation of the work performed. | |
| (2) The period of costs covered. | |
| (3) A summary of the result(s) of the audit(s)/review(s). | |
| (4) A statement of the degree of reliance placed on the work of others (a statement of the audit scope covered by this reliance). | |
| b. Confirm prior discussions with the contractor regarding the support to be provided throughout the audit. This includes the availability of personnel and supporting documentation. The auditor and contractor should agree on a date to receive the certified proposal. | |
| c. Discuss with the contractor the audit program steps that can be performed prior to the end of its fiscal year, including other audit assignment steps (e.g., internal control audits); to be performed after the close of the fiscal year; and those steps that must be performed after receipt of the certified proposal. | |

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| d. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3. | |
| 5. Tailored Steps | |
| a. Tailor the detailed steps using information obtained during the current planning process, recent audit experiences, the results of preliminary steps, especially new areas of risk and sources of reliance, and discussions with the contractor. Any significant changes in the planned scope of audit, including the addition or elimination of a step, must be fully documented. | |
| b. Transaction testing plans should be developed based on the risk assessment and documented for both direct and indirect costs. Supplemental audit program steps should be approved by the supervisor. The areas where transaction testing will be performed should be discussed with the contractor. Throughout the contractor's fiscal year, results should be discussed with the contractor. Significant unresolved issues should also be discussed with the ACO. In developing transaction tests, consider steps that can be consolidated with steps required under current Internal Control audits. | |
| (1) During the transaction testing, ensure that the contractor follows consistent practices in identifying all costs incurred for the same purpose, in like circumstances, as either direct or indirect only. Document any noncompliances. (CAS 402/FAR 31.202 and 31.203(a)) | |
| (2) If during the current audit procedures, it is discovered that the contractor is not identifying and separating significant amounts of expressly unallowable costs in one or more accounts, stop the concurrent audit effort on those accounts until the deficiency is appropriately addressed/corrected by the contractor. | |

| C-1 | Background Information | W/P Reference |
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| Version 4.7, dated September 2012 | | |
| 1. | MAAR 3: Determine if the current organization charts are contained in the permanent file. If applicable, study any updated charts to identify any changes in the organizational structure. Update the following information in the permanent file for the year being audited. If the information is not in the permanent files, obtain it during this audit. | |
| a. | Number of direct and indirect employees. | |

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| b. Plant layouts and floor space utilization. | |
| c. Services performed by outside auditors. | |
| d. Outside auditors' plans for internal control examinations. | |
| e. Listing of financial and managerial reports. | |
| f. Policies and procedures for employee awareness training. (CAM 5-907) | |
| 2. Periodically assess the contractor's overall operation and update the permanent file if applicable. | |
| a. Determine whether any major changes have occurred or are expected to occur in the volume of business or through the modernization of manufacturing facilities. | |
| b. Determine whether these changes (if any) have had, or should have had, an impact on the contractor's direct/indirect charging practices, allocation bases, contract mix, etc. | |
| c. Determine if the contractor underwent or is planning a business combination which was/will be accounted for by the purchase method of accounting. If so, determine that the write-up (or write-down) of the asset values has been properly accounted for and claimed by the contractor. (CAM 7-1705.3) | |
| d. Evaluate any revisions to the CAS Disclosure Statement. | |
| 3. Evaluate the Board of Directors' minutes and audit committee minutes. These minutes may document major decisions that affect the contractor's organization and operations for the year being audited. (CAM 3-104.16) | |

| D-1 | Contract Provisions | W/P Reference |
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| Version 4.7, dated September 2012 | | |
| 1. | Evaluate the contractor's contract briefings. Ensure that all auditable contracts awarded during the year have been briefed (CAM 3-200). If the contractor has not briefed all applicable contracts, the auditor should consider citing the contractor for a billing system deficiency. Any contracts that the contractor has not briefed should be briefed as part of this audit. Evaluate contract briefings for special contract provisions affecting costs. (Coordinate this step with effort performed in a recent billing system examination, if applicable.) Look at contract briefs and other applicable contract information (CAM 3-202) maintained by the FAO, if available. Identify any non-DoD contracts subject to audit and verify the audit effort is reimbursable (i.e., | |

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| approval to bill our audit effort has been obtained from the customer where necessary). If not, adjust the audit scope and auditable dollars accordingly (CAM 15-102.2) | |
| 2. MAAR 7: Look for rate ceilings or cost categories which may not be billed directly on larger new contracts. Note for comparison to any unexplained changes in charging patterns identified. (CAM 6-604.1) | |
| 3. Note completed contracts for closeout. | |

| E-1 | Periodic Reconciliations | W/P Reference |
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| Version 4.7, dated September 2012 | | |
| Most reconciliations are more efficiently performed at year-end or after the submission is received. However, if the contractor's system supports performing periodic reconciliations efficiently throughout the year, the auditor may perform them periodically. (Coordinate these steps with effort performed in the Indirect and ODC and/or the Budget and Planning System and other related Internal Controls audits, if applicable.) | | |
| 1. | MAAR 15: Periodically compare the interim base and pool totals to the amounts for the same period of the prior year. Compare current actuals to budgetary amounts for the current period. Identify any significant variations that require further audit analysis and/or explanation. Determine if the indirect rate structure to accumulate actual costs are consistent with the indirect rate structure used to prepare forward pricing indirect rates for the same year. (CAS 401/FAR 31.201-1 and 31.203(d)) | |
| 2. | MAAR 15: Periodically compare the interim detail accounts within pools to the amounts for the same period of prior years. Compare current actuals to budgetary amounts. Identify any changes in accounting practices and unexplained significant changes in the relative dollar value for follow-up. NOTE: While preparing the above comparison, identify the amount of proposed consultant costs and evaluate the significance and sensitivity of the proposed costs. If selected for testing, utilize activity code 10160 – Incurred Costs (Individual Packages) – Consulting Services to evaluate the proposed costs for allowability, allocability, and reasonableness. (FAR 31.205.33) | |

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| F-1 | Direct and Indirect Labor | W/P Reference |
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| Version 4.7, dated September 2012 | | |
| 1. | MAAR 6: Perform labor floor checks or detailed employee interviews. (CAM 6-404, 6-405) Obtain a listing of contractor employees by location to determine the need for any assist audits of offsite labor. Prepare requests for assist audits deemed necessary based on risk. (CAM 6-405.3a) | |
| 2. | MAAR 7: Evaluate changes in procedures and practices for direct/indirect time charging of contractor employees. Look at the analysis of changed conditions and direct and indirect labor account comparisons to prior years and to budgeted amounts for evidence of undisclosed changes in labor charging practices (CAM 6-604.1). Evaluate labor accounts for consistent classification between direct and indirect. (CAS 402/FAR 31.202 and 31.203(a)) | |
| 3. | MAAR 8: Comparative Labor Analysis-Sensitive Labor Accounts. Perform comparative analysis of sensitive labor accounts, e.g., standby labor. Areas of risk may have been disclosed based on comparisons of direct and indirect labor accounts to prior years and budgets. (CAM 6-404.6b(4)) | |
| 4. | MAAR 10: Adjusting Entries and Exception Reports. Analyze adjusting journal entries and exception reports for labor costs. (CAM 6-404.6b(6)) | |
| 5. | Executive Compensation: Perform sufficient steps to determine that all allocable direct and indirect executive compensation in excess of the statutory compensation ceilings (see CAM 6-414) has either been appropriately (1) excluded from the contractor's incurred cost submission or (2) identified as expressly unallowable costs questioned in the audit report. If another audit assignment has covered this step, reference the assignment and applicable working papers. | |
| 6. | If necessary perform any other required labor audits. | |

| G-1 | Direct Material | W/P Reference |
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| Version 4.7, dated September 2012 | | |
| 1. | MAAR 13: Purchases Existence, and Consumption. Perform physical observations of purchased parts or services. (CAM 6-305.3a(2)) | |
| 2. | MAAR 10: Adjusting Entries and Exception Reports. Evaluate adjusting journal entries and exception reports for costs of purchased services and material. (CAM 6-305.3a(1)) | |

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| 3. MAAR 12: Auditable Subcontracts. (Coordinate the steps in this section with effort performed during the most recent CPSR or Purchasing System audit, activity code 12030, if applicable.) | |
| a. Evaluate the contractor's internal controls relating to subcontracts and intracompany orders. (CAM 6-800) | |
| b. Evaluate the contractor's schedule of auditable subcontracts and intracompany orders under auditable type Government contracts and subcontracts and determine if the contractor has arranged for the required assist audit. If assist audits have not been initiated, coordinate with the contractor and the contracting officer to arrange for the assist audit. (See CAM 6-801, 6-802, and 6-803.) | |
| 4. If necessary, perform other material audits, including make-or-buy decisions (CAM 6-309) and requirements audits (CAM 6-308). | |

| H-1 | Other Direct Costs (ODC) | W/P Reference |
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| Version 4.7, dated September 2012 | | |
| Many, if not all, ODC expense categories have counterparts in the indirect cost pools, and may readily be combined with indirect costs for transaction testing. | | |
| | 1. Identify the universe of job numbers/contract numbers for contracts that contain ODCs. Develop and document a plan for transaction testing of ODCs. | |
| | 2. Obtain the detail of ODC transactions for identified universe of job numbers/contracts. | |
| | 3. Select transactions for review based upon the transaction testing plan. | |
| | 4. For selected transactions, evaluate source documents for completeness and accuracy and determine the appropriateness of the charge based on the terms of the contract and FAR/CAS. | |
| | 5. MAAR 10: Adjusting Entries and Exception Reports. Evaluate adjusting journal entries and exception reports for other direct costs. (CAM 6-504.4) | |
| | 6. Summarize the results of ODC testing. | |

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| I-1 | Indirect Expenses | W/P Reference |
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| Version 4.7, dated September 2012 | | |
| 1. MAAR 18: Indirect Allocation Bases - Evaluate the contractor's indirect cost allocation bases for equity and consistency with generally accepted accounting principles, FAR, and CAS (including the applicability of the allocation bases). Determine if the same accounting period is used for accumulating costs in an indirect cost pool as for establishing its allocation base (CAS 406/FAR 31.203(g)). (To the extent practical, rely on the steps performed under a recent CAS 410, 418, and/or Indirect and ODC system audit to satisfy these steps and reference here.) Determine that the allocation bases used by the contractor for the allocation of indirect costs are equitable and consistent with applicable CAS requirements, generally accepted accounting principles, and applicable provisions of the contract. (CAM 6-606, CAS 410, 418) | | |
| 2. The evaluation of indirect labor should be done in conjunction with the evaluation of direct labor. | | |
| 3. MAAR 5: General Ledger, Trial Balance, Income and/or Credit Adjustments. Analyze general ledger, trial balance, income/credit adjustments, and miscellaneous income accounts. (CAM 6-608.2d(5)) | | |
| 4. MAAR 16: Indirect Account Analysis (CAM 6-608.2). Evaluate significant or sensitive accounts or transactions and accounts selected through the MAAR 15 audit. Selected accounts audited on a concurrent basis should be accounts where the contractor has adequate point of entry or interim screening. | | |
| a. Accounts containing transactions to be audited via statistical sampling. | | |
| b. Accounts selected for 100% audit. | | |
| c. Accounts to be evaluated by audits other than transaction testing. | | |
| 5. MAAR 10: Adjusting Entries and Exception Reports. Evaluate adjusting journal entries and exception reports for indirect costs (CAM 6-608.2c). | | |
| 6. Ensure the contractor follows consistent practices in selecting the cost accounting period(s) in which any types of expense and any types of adjustment to expense are accumulated and allocated. (CAS 406/FAR 31.203(g)) | | |
| 7. Computer Cost Algorithms (CAM 7-100) | | |
| 8. Service Centers (CAS 418; D/S 4.3.0) | | |
| 9. Expressly Unallowable Costs. Determine if expressly unallowable costs, mutually agreed to be unallowable costs, costs which | | |

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| <p>specifically become designated as unallowable by contracting officer's written decision, and directly associated costs are identified and excluded (CAS 405/FAR 31.201-6).</p> | |
| <p>a. Evaluate voluntary deletions and questioned costs for directly associated costs that should also be excluded/questioned. When an unallowable cost is incurred, its directly associated costs are also unallowable (FAR 31.201-6(a)).</p> | |
| <p>b. Determine that costs directly associated with an unallowable cost, if normally included in an indirect cost pool to be allocated over a base that contains the unallowable cost, are allocated through the regular allocation process.</p> | |
| <p>(1) If a directly associated cost is included in a cost pool which is allocated over a base that includes the unallowable cost with which it is associated, the directly associated cost should remain in the cost pool. Since the unallowable costs will attract their allocable share of costs from the cost pool, no further action is required to assure disallowance of the directly associated costs (FAR 31.201-6(d)).</p> | |
| <p>(2) If the unallowable cost is not included the allocation base, the directly associated costs, if material in amount, must be purged from the cost pool as unallowable costs.</p> | |
| <p>c. Ensure that unallowable costs, which are normally included in an allocation base or bases remain in the base or bases.</p> | |

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| J-1 | Special Purpose Evaluations | W/P Reference |
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| Version 4.7, dated September 2012 | | |
| | <p>1. Insurance (CAS 416, CAM 5-1303 and 7-500, and standard audit program Incurred Insurance Cost and CAS 416 and FAR Compliance, assignment code 19416). The insurance summary, JNTCPIRINS-Insurance Summary Schedule, under “Other Audit Guidance” in APPS, should be maintained in the permanent file and must be updated annually, regardless of whether an audit/review has been scheduled. (Audit effort performed in the most recent CIPR and CAS 416 audits/reviews should be relied upon in determining the extent of effort required on these steps.) (NOTE: The steps in the Incurred Insurance Cost and CAS 416 and FAR Compliance audit program are applicable to contractors with CAS covered contracts and contractors with no CAS covered contracts and should be adjusted appropriately based on the risk assessment.)</p> <p>NOTE: Insurance costs are audited by the FAO cognizant of the contractor location where the plans are administered and the costs are incurred. For multi-segment contractors, this will generally be the corporate home office. Therefore, divisional auditors may need to request an assist audit from the FAO cognizant of the corporate home office.</p> | |
| | <p>2. Special Facilities Operating Costs, including GOCO rent allocations, if applicable, and if programmed for audit. (CAM 6-607 and 7-300)</p> | |

| K-1 | Intermediate Procedures | W/P Reference |
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| Intermediate procedures include steps that cannot be performed until after the contractor’s fiscal year. A certified proposal is not required to perform these steps. | | |
| | <p>1. MAAR 16: Continue substantive testing on accounts with adequate screening. To render an opinion on the total year-end claimed amount, some final substantive testing on accounts tested during the current year should be performed.</p> | |
| | <p>2. MAAR 15: Perform a final comparison of base and pool totals to prior year and budgetary amounts. Compare detail accounts within pools to prior years and budget to identify any changes in accounting practice/unexplained disproportionate changes in relative dollar value not previously disclosed that require follow-up. (CAM 6-608.2c(2))</p> | |
| | <p>3. MAAR 10: Evaluate year-end labor, material, other direct costs, and</p> | |

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| indirect cost adjusting journal entries and exception reports. | |
| 4. Evaluate organizational and financial data not available during the year. | |
| a. Obtain and evaluate a copy of the external auditor's internal control letter or a statement that the external auditor did not prepare an internal control letter. For publicly traded companies that file financial information with SEC, review the "internal control report" prepared by management that accompanies the financial statements. | |
| b. Obtain and evaluate copies of Federal and state income tax returns. | |
| c. MAAR 4: If the contractor is not a corporation which prepares consolidated financial statements, look at the contractor's tax returns, SEC filings and financial statements to highlight possible areas requiring further evaluation. Obtain documentation of evaluations performed at the corporate level, if appropriate. | |
| d. MAAR 4: The corporate auditor, if applicable, should furnish copies of the consolidated financial statements to the division auditors. All auditors should read the notes to the financial statements for possible audit leads. Note unusual items for audit follow-up. (CAM 3-104.16) | |
| e. MAAR 9: Evaluate the contractor's end of the year quarterly reconciliation of payroll tax returns to total labor distribution. Identify the direct labor total for reconciliation of fringe benefits and labor overhead base(s). Trace labor reconciling items to the appropriate ledger. (CAM 6-406.2a(6) and CAM 7-1404) | |
| (1) Review the contractor's IRS Form 941s (Employer's Quarterly Federal Tax Return) for the year(s) being audited to identify employee taxes withheld (liability) and employer matching payroll taxes (expenses) to determine total payroll taxes owed. | |
| (2) Verify the timely payment of payroll taxes as shown on the IRS 941s through the contractor's use of IRS Form 8109 (Federal Tax Deposit Coupon), the Electronic Federal Tax Payment System (EFTPS), or other information to support the contractor's payment. | |
| (3) If the contractor failed to pay payroll taxes when due, it is delinquent in payment in the normal course of business and those costs should be questioned under FAR 52.216-7 b. (ii). | |
| 5. Based on year-end data, complete the balance of the MAARs started during the current audit procedures, if applicable. Perform year-end tests necessary to render an opinion on transactions processed between the date of the interim testing and year-end on both direct and indirect | |

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| costs. | |
| 6. Evaluate the Board of Directors' minutes and audit committee minutes not previously evaluated for the year being audited. At large multi-segmented contractors, coordinate with the corporate office auditors. (CAM 3-104.16e) | |
| 7. Audit Pension Costs. (CAM 5-1303 and 7-600; CAS 412 and 413; FAR 52.216-7(b)(2); and standard audit program Incurred Pension Cost and CAS 412 and 413 Compliance, assignment code 19412). | |
| a. IRS Form 5500, or other verifiable documents, and funding should be examined annually for all plan types. Actuary's report and auditor's report should be evaluated for changes to defined benefit plans (i.e., a segment closing, plan termination, curtailment or other change in benefits, changes in actuarial assumptions, etc.). All three external documents should be retained in the permanent file. | |
| b. If pension costs are incurred for the year, the standard audit program, Incurred Pension Cost and CAS 412 and 413 Compliance, should be used to review those costs and the contractor's compliance with applicable provisions of CAS 412 and 413. (NOTE: The audit steps in Incurred Pension Cost and CAS 412 and 413 Compliance are applicable to contractors with CAS covered contracts and contractors with and no CAS covered contracts and should be adjusted appropriately based on the risk assessment.) | |
| c. If no pension costs are incurred for the year, the following steps are mandatory for defined benefit plans: | |
| (1) Determine if any events have occurred since the last audit that would require an adjustment to previously determined pension costs per CAS 413.50 (c)(12); i.e., a segment closing, pension plan termination, or curtailment of benefits. If so, in addition to completing the steps below, a special CIPR must be performed using the standard audit program CAS 413.50(c)(12) Segment Closing Adjustment, assignment code 19413. | |
| (2) Evaluate the Trustee report and obtain an explanation for any significant withdrawals of pension assets. Perform additional audit steps as needed to ensure that Government-contributed pension assets are protected. | |
| (3) Determine if any events have occurred since the last audit that may result in conditions that require segment accounting (CAS 413.50(c)(2) and (3)). If so, recommend to the ACO that a special CIPR be performed to verify that the contractor has | |

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| complied with CAS 413.50(c)(2), (3), and (5). | |
| (4) If it is the contractor's practice to calculate pension costs by segment: | |
| (a) Verify that the records required by CAS 413.50(c)(7) are properly maintained and that investment earnings of the trust are allocated in accordance with CAS 413.50(c)(7). | |
| (b) Determine if the transfer of active employees among segments distorts the ratio of assets to the actuarial accrued liabilities. | |
| (c) If so, verify that assets equal to the employees' actuarial accrued liabilities (determined using the accrued benefit cost method) were transferred in accordance with CAS 413.50(c)(8). (Consider requesting assistance from the DCMA pension specialist through the ACO (CAM 5-1303.1c)). | |
| NOTE: Pension costs are audited by the FAO cognizant of the contractor location where the plans are administered and the costs are incurred. For multi-segment contractors, this will generally be the corporate home office. Therefore, divisional auditors may need to request an assist audit from the FAO cognizant of the corporate home office. | |
| 8. Check the status of the assist audits and incorporate the results received into the audit. If any requested assist audits are outstanding, follow up with the cognizant auditors. See CAM 6-709.2c for guidance on issuing the report without the requested assist audits. | |
| 9. If reliance was placed on the work of others, document the file. (CAM 4-1005) | |

| L-1 | Final Procedures | W/P Reference |
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| | Version 4.7, dated September 2012 | |
| | Final procedures include steps that cannot be performed until the certified proposal is received. These steps include evaluating the proposal for adequacy and reconciling the proposal to data audited during the year. Additionally, there may be steps that could not be performed on a concurrent basis. Results should be discussed with the contractor. Significant unresolved issues should also be discussed with the ACO. | |
| | 1. Examine the contractor's proposal. If not already provided electronically, request the contractor to submit its proposal and | |

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| <p>supporting data in electronic media (e.g., CD-ROM, on-line access). The data should be in an acceptable format for processing on DCAA computers (e.g., Microsoft Office products). The proposal must be accompanied by a Certificate of Indirect Costs, in accordance with FAR 42.703-2, and the following data should either be included with the proposal or be available in the contractor's files (CAM 6-707.1):</p> | |
| <p>a. Summary schedule of bases, pools, and rates and certification of allowability.</p> | |
| <p>b. Detailed schedule of account balances within pools.</p> | |
| <p>c. Schedule of auditable contracts and subcontracts by Government agency. The contracts should be cross-referenced to the contractor's internal job numbers. The schedule should identify:</p> <ul style="list-style-type: none"> • CAS covered contracts • Contracts that contain or should contain the penalties clause (FAR 52.242-3 or DFARS 252.231-7000) (CAM 6-609) | |
| <p>d. Schedule of direct costs by element by (sub)contract, including direct hours by labor category for T&M and labor hour contracts.</p> | |
| <p>e. Schedule of contract closing information for contracts completed during the fiscal year and a schedule of cumulative direct and indirect costs claimed and billed.</p> | |
| <p>f. Reconciliation of booked to billed costs.</p> | |
| <p>2. MAAR19: Verify the mathematical accuracy of the contractor's rate computations. (CAM 6-611.1a) Verify that the contractor has included voluntary deletions/unallowable costs in the applicable allocation bases.</p> | |
| <p>3. Determine if the contractor uses the fiscal year as its cost accounting period. (CAS 406/FAR 31.203(g)) (See CAM 8-406.1 and 6-605 for exceptions to the fiscal year.)</p> | |
| <p>4. MAAR 2: Evaluate summaries of the contractor's total annual contract costs by major cost element and verify that the auditable contract costs reconcile to the contractor's accounting records by cost element. (CAM 6-610.1)</p> | |
| <p>5. MAAR 14: Evaluate the contractor's reconciliation of proposed base and pool totals to the contractor's accounting records. Interim accounting data relied upon during the concurrent audit should be reconciled to the contractor's submission. Verify that the contractor has excluded any agreed-to questioned costs from its proposal (CAM 6-610.1 and 6-610.2). Evaluate items requiring follow-up. Evaluate any significant adjustments made to accounts previously examined.</p> | |

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| 6. Determine the status of the assist audits and follow-up with the cognizant auditor, as necessary. Compare the allowable costs reported for the subcontract/intracompany effort in the assist audit report with the claimed subcontract/intracompany costs in the contractor's submission. Follow-up as needed with the assist auditor. | |
| 7. Perform transaction testing on sensitive and high risk accounts. An account would be classified as high risk for concurrent auditing if: | |
| <ul style="list-style-type: none"> • The contractor has inadequate point of entry or interim screening for the account or | |
| <ul style="list-style-type: none"> • Transaction testing on the account was suspended during interim testing due to internal control weaknesses. | |
| 8. Examine the contractor's data and computations supporting the final executive compensation amounts included and excluded for the contractor's year-end calculations. (CAM 6-414) | |

| A-1 | Concluding Steps | W/P Reference |
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| Version 4.7, dated September 2012 | | |
| 1. | Completion of Field Work: | |
| a. | Update the calculation of the Government cost-type, T&M, and FPI percentages of the indirect expense. | |
| b. | If a billing system audit was not performed in this CFY, test the contractor's reconciliation of booked to billed costs. | |
| | (1) Evaluate the materiality of any overbilled amounts, both at the total and individual contract level. | |
| | (2) If overbilled amounts are considered to be material, discuss with the supervisor the need to set up a billing system audit or special purpose audit of contractor overpayments to resolve the overbilling. | |
| | (3) If the contractor has been authorized to direct bill, determine whether the contractor should continue to be authorized to direct bill (see CAM 6-1007). | |
| | (4) If the contractor also performs as a subcontractor, specifically test some subcontracts to ensure that adjustment vouchers are submitted to the prime contractor on a timely basis following the settlement of rates. | |
| c. | If contracts contain or should contain the penalties clause, and expressly unallowable costs were included in the certified proposal, prepare a schedule of questioned costs by penalty class. | |

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| <p>Computations should be limited to the dollar value of the indirect expense recovery for each contract in the affected pool and its percent of the appropriate allocation base. (CAM 6-609.1f(5) and 10-504.5e(6))</p> | |
| 2. Summarize results of transaction tests. | |
| 3. Annotate on the schedule of direct costs by contract any direct costs questioned in order to provide a schedule of allowable direct costs by contract for use on preparation of CACS or CACWS. | |
| 4. Incorporate results of supervisory review. | |
| 5. Prepare a schedule of questioned costs for the exit conference. | |
| 6. Hold the exit conference. Refer to CAM 6-708 and 6-709. | |
| 7. Summarize the results of the audit and the exit conference. | |
| 8. Follow the steps in CAM 6-711.3 to prepare/update the cumulative allowable cost worksheet (CACWS) by contract and subcontract. Discuss with the contractor and request that it provide this schedule whenever possible. (CAM 10.504.5e(8)) | |
| 9. Perform permanent file and MAARs update. | |
| a. Update relevant ICAPS (MAAR 1). (CAM 3-300) | |
| b. Update permanent file (MAAR 3). (CAM 4-405.1) | |
| c. Update the MAARs Control Log (see M-MAARs-CIC, activity code 10100, in Other Audit Guidance). Include a completed copy of the control log in this working paper package. The control log must be signed by the supervisory auditor after reviewing the referenced working papers or audit work packages to insure that they include adequate MAARs coverage or an explanation in the working papers to support a “not required” coding. Document any known system weaknesses and note any matters which should be considered in subsequent price proposal audits. | |
| 10. Audit Report Preparation and Supervisory Review | |
| a. Prepare the draft report and rate letter or DCAA Form 1 (CAM 6-900). Attach applicable appendixes to the final report. (CAM 10-505) | |
| b. If applicable, prepare CAS noncompliance and internal control deficiency reports. | |
| c. If the auditor has encountered information that constitutes evidence or raises suspicion of fraud or other illegal acts have occurred, refer such suspicion by completing the DCAA Form 2000 in accordance with CAM 4-702.4. | |

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| d. Calculate dollars audited and cost savings (Use DCAA Computation of Dollars Audited and Cost Savings.xls spreadsheet under Other Audit Guidance in APPS). | |
| e. Post hours and other data to the audit program and DMIS input form. | |
| f. Incorporate results of supervisor, FAO manager, and RAM reviews. The top page of the final draft report should be initialed and dated by the reviewer(s) to document approval. | |